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Press Release

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Editors/Reporters
• Please click on link to view and download Avison Young's Year-End 2018 BC Real Estate Investment Review:
https://www.avisonyoung.ca/documents/95750/47239315/BCInvestmentReview_YearEnd2018

Near-record year reveals market fundamentals driving British Columbia investment levels despite headwinds

Avison Young releases Year-End 2018 BC Real Estate Investment Review

Vancouver, BC – BC commercial real estate investment activity achieved near-record levels in 2018 despite a shift in market outlook and rising economic and political headwinds that manifested locally at mid-year and remained on the minds of investors through the balance of 2018. While there may have been a change in the perception of market conditions due to municipal elections in the fall that ushered in rising anti-development sentiment in council chambers across Metro Vancouver, investors still concluded 202 industrial, retail and office deals valued at almost $6.5 billion – the second most on record in terms of both deal and dollar volume. This figure does not include ICI or residential land sales activity, which Avison Young has historically tracked separately, and which did slow in terms of the number of sales in the second half of 2018.

These are some of the key trends noted in **Avison Young's *Year-End 2018 BC Real Estate Investment Review***, released today. The semi-annual report tracks BC office, industrial, retail and multi-family property sale transactions greater than $5 million.

In terms of BC commercial real estate asset sales, the largest transaction of 2018 was the $600-million acquisition of Telus Garden by Greystone Managed Investments and Forgestone Capital. The sale and subsequent resale of the Gateway Casinos portfolio were the second and third largest deals of 2018, respectively. AIMCo acquired a 50% interest in CF Richmond Centre for $392 million, while the $225-million sale of City Square Shopping Centre in Vancouver to private investors rounded out the top five.

While the first and second halves of 2018 were almost identical in terms of deal and dollar volume, the approach of investors involved in acquiring assets started to change by mid-year. Purchasers began to temper not only the price they would be willing to pay in an environment of increasing as well as real and present risk, but they also resumed evaluating assets on fundamentals such as income, maximizing rents and reviewing tenant mix and lease terms. This approach was done in a renewed search for organic growth of returns with less of a focus on the speculative aspects of any given sale. Redevelopment opportunities remained an important consideration, but were no longer the primary consideration. This recalibration of investment objectives resulted in a widening bid-ask gap by the summer of 2018, which resulted in a slowing of deal velocity as vendors, who had grown accustomed to setting new pricing records with each transaction, were forced to reconsider their price expectations in order to come to terms with purchasers.

"A substantial decline in the number of deals completed is forecasted for the first half of 2019, while pricing is expected to remain strong with large institutional-grade office, retail and industrial assets still commanding top dollar," comments Avison Young Principal **Michael Buchan**. "While capital remains plentiful, purchasers became more circumspect in terms of what they acquired in the latter half of 2018 and into 2019."

Private purchasers remained the most dominant buyer group in 2018 in terms of the number of deals completed (82%), with their share of overall dollar volume climbing to 60.6% – a substantial change from the 46% of dollar volume expended in 2017, which was the lowest since 2012 when private investors disbursed just 38% of total dollar volume. Private purchasers captured the most dollar volume in 2014, when they allocated an astonishing 75% of total expenditures; however, that share steadily declined each year until 2018 as institutions re-engaged with the market.

Private vendors accounted for 56.3% of total proceeds in 2018, up significantly from 35% in 2017 (the lowest on record since at least 2006) and 2016 (44%) but still off the highly profitable years of 2015 (67%) and 2014 (65%), despite being involved in 83% of sales. Typically, institutional vendors command a significant amount of the proceeds despite being involved in a small number of deals, which remained the case in 2018 (to a lesser extent than previous years) with institutions accounting for 22% of the proceeds from 8% of the total sales.

Sector Investment Review Highlights:

Office

Office investment sales activity in BC achieved near-record levels in 2018 with 42 transactions valued at $2.4 billion, representing 37% of overall dollar volume of $6.5 billion while capturing 21% of total sales. While just shy of the record 46 office transactions valued at $2.7 billion that transacted in 2017, office sales activity in 2018 was the second strongest on record, surpassing the 2016 deal total of 39 sales valued at $2.4B. Two of the three largest office sales in 2018 closed in the second half – the $600-million sale of the recently completed Telus Garden at 510 West Georgia Street and the $227-million sale of Government House at 800 Burrard Street – and were located in the Downtown core. The third, Willingdon Park in Burnaby, had sold for $179.4 million in the first half of 2018. Other notable office sales in the second half included the Leckie Building at 220 Cambie Street (also downtown) for $91 million and the $92-million sale of phase two of Containers at 468 Terminal Avenue on the outskirts of downtown Vancouver.

Retail

Sales of BC retail assets remained extraordinarily strong in 2018 with 79 transactions valued at $2.9 billion – the second most on record after the blockbuster record year of 2017 that included 96 deals valued at $3.63 billion. Retail investment sales captured 45% of overall BC dollar volume of $6.5 billion in 2018 while representing 40% of the total number of sales. While the majority of 2017 retail dollar volume had occurred in the first half of the year, retail sales volumes in 2018 were more evenly distributed with 43 transactions valued at $1.55 billion registered in the first half before declining to 36 transactions valued at $1.35 billion in the second half of 2018.

Industrial

Very strong demand for BC industrial assets pushed deal and dollar volume to near-record levels in 2018 with 81 deals valued at almost $1.2 billion, capturing 18% of total 2018 investment proceeds of $6.5 billion, but claiming 40% of the total number of deals. This is the second year in a row that annual industrial investment in BC has surpassed the $1-billion mark following a record-setting 2017 that registered 88 transactions valued at more than $1.2 billion. To provide some sense of the scope of the surge in BC industrial investment activity since 2014: a new deal and dollar volume record was set each year from 2015 to 2017. Investment activity rose to 51 deals valued at $642 million in 2015 before spiking to 61 deals valued at $819 million in 2016 before surpassing $1.2 million and peaking in 2017.

Multi-Family

Multi-family investment activity surpassed the billon-dollar mark for the second consecutive year in 2018 with 84 transactions valued at $1.47 billion, setting a new dollar volume record. While the number of transactions in 2017, 89, still holds the record in terms of number of deals, the dollar volume record of $1.41 billion (which had actually been set in 2015) was finally surpassed in 2018.

Investment activity remained stable throughout 2018, but dollar volume increased in the second half of the year with 42 deals valued at $798 million compared with 42 transactions worth $673 million in the first half. The five largest multi-family sales in the province in 2018 included the $130-million sale of Wesley Place in Vancouver's West End; the $97.5-million sale of Woodland Park in Port Moody; and the portfolio sale of Paul Plaza ($81.85 million), Peter Manor ($74.5 million) and Matthew Court ($65.1 million), all of which were also located in the West End. These five deals alone make up 30% of the total multi-family dollar volume investment in BC in 2018.

Avison Young is the world's fastest-growing commercial real estate services firm. Headquartered in Toronto, Canada, Avison Young is a collaborative, global firm owned and operated by its Principals. Founded in 1978, with legacies dating back more than 200 years, the company comprises approximately 5,000 real estate professionals in 120 offices in 20 countries. The firm's experts provide value-added, client-centric investment sales, leasing, advisory, management and financing services to clients across the office, retail, industrial, multi-family and hospitality sectors.

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